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## REVIEW & OUTLOOK

### Flat Tax Fred

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Fred Thompson's Presidential campaign has been struggling, in part because of a sense that he lacks passion and an agenda. But late last week he unveiled a tax reform that is more ambitious than anything we've seen so far from the rest of the GOP field.

Mr. Thompson wants to abolish the death tax and the Alternative Minimum Tax and cut the corporate income tax rate to 27% from 35%. But his really big idea is a voluntary flat tax that would give every American the option of ditching the current code in favor of filing a simple tax return with two tax rates of 10% and 25%.

Mr. Thompson is getting aboard what has become a global bandwagon, with more than 20 nations having adopted some form of flat tax. Most -- especially in Eastern Europe -- have seen their economies grow and revenues increase as they've adopted low tax rates of between 13% and 25% with few exemptions.

The main political obstacle to such a reform in the U.S. has come from liberals, who favor punitive taxes for "class" reasons, and K Street corporate lobbyists who want to retain their tax-loophole empires. The housing and insurance industries, states and localities, charities, bond traders and tax preparers are all foes of low tax rates.

That's why the idea of a voluntary flat tax -- introduced on these pages a dozen years ago -- makes political sense. The Thompson plan would allow taxpayers to keep their mortgage and charitable deductions if they prefer, by adhering to the current tax code and rates. But it would also allow the option to abandon those credits and deductions except for a single allowance based on family size (\$39,000 for a family of four). Most taxpayers would pay a 10% rate on income above that allowance, with a 25% rate kicking in at \$100,000 for a couple. There would only be five lines on the tax form and most taxpayers could fill it out in minutes.

Liberals are already objecting that the plan is not "paid for," by which they mean it doesn't raise taxes the way they hope the next President will. But Mr. Thompson is right in refusing to play by the "static revenue" scoring game that demands that one dollar in estimated tax cuts be offset by one dollar in estimated tax increases somewhere else. "The experts always overrate the revenue losses from tax cuts," Mr. Thompson says, and history supports him going back to the Mellon reductions of the 1920s, the Kennedy tax cuts of the 1960s, the Gipper's in the 1980s, and this decade's success with President Bush's reductions.

Mr. Thompson's plan is based on one introduced by GOP Representatives Paul Ryan and Jeb

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Hensarling that is in any case not designed to lose revenue. It is intended to allow federal receipts to grow at the rate of the economy, which would leave them at some 18% or 19% of GDP -- roughly their average of recent decades. When critics object to revenue losses, they are really saying that the tax share of GDP should be allowed to rise to 20% and higher, which is where we are headed if the Bush tax rates expire.

We'd prefer a flat tax with one rate instead of Mr. Thompson's two. Once the concession is made that richer people should pay a higher tax rate, the political temptation is always to raise the rate on the wealthy. The virtue of the single-rate flat tax isn't merely its efficiency but also its moral component: It treats all taxpayers equally. If a person makes five times more money than his neighbor, he should pay five times more taxes, not 10 or 20 times more.

However, what's refreshing about the Thompson plan is that it goes well beyond the current Republican mantra to make "the Bush tax cuts permanent." That is certainly needed, but the GOP also needs a more ambitious agenda, especially with economic growth slowing. The flat tax has the added political benefit of assaulting the special interests who populate the Gucci Gulch outside Congress's tax-writing committee rooms. Lower rates and simplify the tax code, and you instantly reduce the opportunities for Beltway corruption. It is both a tax policy and political reform.

The two apparent Republican front runners, Rudy Giuliani and Mitt Romney, should be paying attention. Both have called for tax cuts in general but have dodged any endorsement of the flat tax -- presumably because they think it is too politically risky. The politically calculating Mr. Romney has questioned whether the flat tax is "fair." Mr. Giuliani is more open to the idea, saying the flat tax "would be a lot easier. It would probably bring in a lot more revenue and it would not have some of the burdens on the economy that the massive tax code has." That's right, so why not go all the way?

Mr. Thompson's voluntary proposal is one way to deflect some of the inevitable political opposition. Anyone who prefers the current tax code can stick with it. The rest of us can have a better choice.

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